

CONSUMER LEASING

OVERVIEW

Federal Reserve Board (FRB) Regulation M requires meaningful disclosures of the terms of leases of personal property for personal, family, or household purposes. It limits balloon payments in consumer leasing, enables comparison of lease terms with credit terms where applicable, and assures meaningful and accurate disclosures of leased terms in advertisements.

Examination Objective(s)

The objectives for the examination are to determine:

Whether the financial institution is a lessor and therefore, subject to Regulation M

Whether the financial institution's policies and practices are in compliance with Regulation M

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DEFINITION(S)

A consumer lease is:

Consumer Lease

Entered into by a natural person

For the use of personal property primarily for personal, family, or household purposes

For a period of time exceeding four months

For a total contractual obligation not exceeding \$25,000

DEFINITION(S)
(cont'd)

Consumer Lease
(cont'd)

The following are **not** consumer leases:

Those that meet the definition of a credit sale in Section 226.2(a) of Regulation Z

Those where the leased property is used for agricultural, business, or commercial purposes

Those where the lease is made to an organization

Exempted transactions (213.3)

Lessee

A natural person who leases under or who is offered a consumer lease.

Lessor

A person who, in the ordinary course of business regularly leases, offers to lease, or arranges for the leasing of personal property under a consumer lease.

Triggering Terms

The following are "Triggering Terms" with respect to advertisements for consumer leases:

The amount of any payment

The number of payments required

That any or no down payment or other payment is required at consummation

EXAMINATION PROCEDURES

Evaluate for Compliance with Regulation M	
1.	Review the Compliance Information Request (CIR) to determine if the financial institution has made or purchased consumer leases since the last examination.
2.	Review forms used in granting consumer leases.

**EXAMINATION
PROCEDURES
(cont'd)**

3. Determine that disclosures were furnished to customers before consummation of the lease. (213.4(a))

Disclosures

4. Determine that lease disclosures include, as applicable:

A description of the property (213.4(g)(1))

The amount of any payment to be paid at consummation (213.4(g)(2))

Payment schedule (213.4(g)(3))

Charges not included in the periodic payments, including any liability imposed at the end of the lease term (213.4(g)(4) and 213.4(g)(5))

Insurance requirements, any guaranties or warranties, and maintenance or servicing agreements (213.4(g)(6), 213.4(g)(7), and 213.4(g)(8))

Any security interest, other than security deposit (213.4(g)(9))

The amount or method of determining any delinquency, default, or late payment charge (213.4(g)(10))

Terms and conditions of any purchase option (213.4)(g)(11))

Conditions under which either party to the transaction may terminate the lease prior to the end of the term (213.4(g)(12))

Lessee's responsibility, if any, for the difference between the estimated property value and the realized value (213.4(g)(13))

A statement that the lessee may obtain (at lessee's expense), a professional appraised value which could be realized at sale of the leased property by an independent third party agreed to by the lessee and the lessor when the lessee's liability at early termination or at the end of the lease term is based on the estimated value of the leased property (213.4(g)(14))

The value of the property at consummation of the lease, the itemized total lease obligation at the end of the lease term, and the difference between them, where the lessee's liability at the end of the term is based upon the estimated value of the leased property (213.4(g)(15)(i))

**EXAMINATION
PROCEDURES
(cont'd)**

The estimated value of the leased property at the end of the lease term is reasonable and in good faith to the extent that it exceeds the net realized value by more than three times the average payment allocable to a monthly period (213.4(g)(15)(ii))

Refer to Appendix C of Regulation M for model disclosure forms.

Triggering Terms (Advertising)

5. Determine that if triggering terms are utilized in advertisements, the following are disclosed:

That the transaction is a lease (213.5(c)(1))

The total amount of any payment such as security deposit or capitalized cost reduction required at consummation (213.5(c)(2))

The number, amounts, due dates or periods of scheduled payments, and the total of such payments under the lease (213.5(c)(3))

A statement of whether or not the lessee has the option to purchase the leased property and if so, when and at what price (213.5(c)(4))

A statement of the amount or method of determining the amount of any liabilities the lease imposes upon the lessee at the end of the term and a statement that the lessee shall be liable for the difference, if any, between the estimated value of the leased property and its realized value at the end of the lease term, if the lessee has such liability (213.5(c)(5))

**WORKPAPER
STANDARDS**

Standardized workpapers must be completed when reviewing compliance with Regulation M. Refer to the Standardized Workpapers Appendix in this manual.



**FDIC LAW,
REGULATIONS
, & RELATED
ACTS**

Applicable Rules

Consumer Credit Protection Act, Chapter 5 (Consumer Leases), Volume 2,
Page 6590.04

Federal Reserve Board's Consumer Leasing Official Staff Commentary to
Regulation M, Volume 2, Page 6719

Regulation M (Part 213), Volume 2, Page 6685

**Advisory
Opinions**

None

**Statements of
Policy**

None

**DCA
MEMORANDA**

Examination Procedures for Advertisements and Public Notices, Transmittal
#DCA-96-022, dated 2/22/96

General Workpaper Standards and Standardized Workpapers, Transmittal
#DCA-96-003, dated 1/19/96

Pre-Examination Planning (PEP) Procedures, Transmittal No. DCA-96-013,
dated 1/31/96

**FINANCIAL
INSTITUTION
LETTERS (FIL)**

None
